

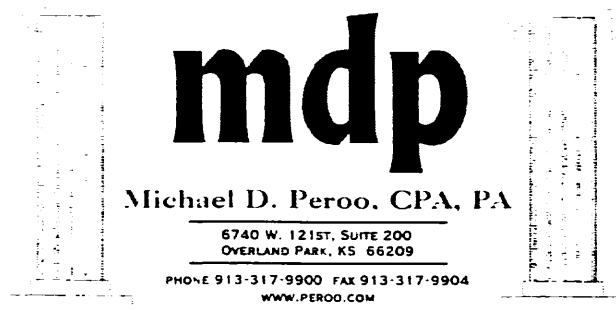
**CONSOLIDATED RURAL WATER
DISTRICT NO. 6
JOHNSON COUNTY, KANSAS**

**Financial Statements for the
Years Ended December 31, 2008 and 2007
And Independent Auditors' Report**

CONSOLIDATED RURAL WATER DISTRICT NO. 6 JOHNSON COUNTY, KANSAS

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INDEPENDENT AUDITORS' REPORT

Board of Directors and Members
Consolidated Rural Water District No. 6
Johnson County, Kansas

We were engaged to audit the accompanying statements of net assets of Consolidated Rural Water District No. 6 (District), Johnson County, Kansas as of December 31, 2008 and 2007, and the related statement of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the District's management.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the Kansas Municipal Audit Guide (KMAG). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2008 and 2007 financial statements referred to above present fairly, in all material respects, the financial position of the District as of December 31, 2008 and 2007, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles, in the United States of America.

The supplemental schedules for the years ended December 31, 2008 and 2007, listed in the foregoing table of contents are not necessary for a fair presentation of the financial statements, but are presented as additional analytical data. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The District has elected not to adopt the provisions of Government Accounting Standards Board Statement No. 34 requiring the presentation of management's discussion and analysis.

Michael D. Peroo, CPA, PA

Michael D. Peroo

Michael D. Peroo, CPA
In Charge of and Actively Engaged
on this Audit

May 29, 2009

CONSOLIDATED RURAL WATER DISTRICT NO. 6
JOHNSON COUNTY, KANSAS

STATEMENTS OF NET ASSETS
DECEMBER 31, 2008 AND 2007

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 512,704	\$ 391,512
Short-term investments	229,562	294,281
Certificates of deposit	142,086	136,516
Accounts receivable	45,660	67,207
Interest receivable	3,496	3,985
Total current assets	<u>933,508</u>	<u>893,501</u>
 DEBT SERVICE FUND	 141,974	 141,715
 PROPERTY AND EQUIPMENT, net	 2,739,653	 2,812,604
 LOAN COSTS, net	 <u>8,521</u>	 <u>9,296</u>
	<u>\$ 3,823,656</u>	<u>\$ 3,857,116</u>
 LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 66,699	\$ 64,409
Accounts payable	28,715	29,853
Accrued liabilities	17,042	15,056
Total current liabilities	<u>112,456</u>	<u>109,318</u>
 LONG-TERM DEBT, less current portion	 725,911	 783,620
 NET ASSETS:		
Invested in capital, net of debt	1,955,564	1,973,871
Restricted	141,974	141,715
Unrestricted	887,751	848,592
Total net assets	<u>2,985,290</u>	<u>2,964,178</u>
	<u>\$ 3,823,656</u>	<u>\$ 3,857,116</u>

CONSOLIDATED RURAL WATER DISTRICT NO. 6
JOHNSON COUNTY, KANSAS

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
WATER SALES	\$ 493,362	\$ 532,860
COST OF WATER	<u>225,669</u>	<u>245,317</u>
Gross profit from water sales	<u>267,693</u>	<u>287,543</u>
OPERATING EXPENSES:		
Repairs, maintenance and compliance	81,258	70,041
Professional fees	6,004	4,880
Depreciation and amortization	114,437	114,321
Utilities	1,154	1,144
Insurance	3,833	3,907
Office supplies	6,233	2,426
Contract services	60,474	59,829
Travel	576	3,109
Dues	465	191
	<u>274,434</u>	<u>259,848</u>
INCOME (LOSS) FROM OPERATIONS	<u>(6,741)</u>	<u>27,695</u>
NON OPERATING REVENUES (EXPENSES):		
Interest income	25,688	39,648
Interest expense	(35,976)	(34,610)
Late charges, finance charges and transfer fees	18,379	15,125
	<u>8,091</u>	<u>20,163</u>
NET INCOME BEFORE CAPITAL CONTRIBUTIONS	1,350	47,858
BENEFIT UNITS AND AID IN CONSTRUCTION	<u>19,761</u>	<u>124,356</u>
CHANGE IN NET ASSETS	21,111	172,214
NET ASSETS, BEGINNING OF YEAR	<u>2,964,178</u>	<u>2,791,964</u>
NET ASSETS, END OF YEAR	<u>\$ 2,985,290</u>	<u>\$ 2,964,178</u>

**CONSOLIDATED RURAL WATER DISTRICT NO. 6
JOHNSON COUNTY, KANSAS**

**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007**

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from members for water	\$ 514,909	\$ 515,079
Cash payments to suppliers for goods and services	(387,038)	(389,577)
Net cash provided by operating activities	<u>127,872</u>	<u>125,502</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from sale of benefit units and aid in construction	19,761	86,111
Purchase of property and equipment	(40,712)	(111,760)
Interest paid	(33,756)	(36,840)
Principal payments on long-term debt	(55,419)	(62,001)
Net cash used by capital and related financing activities	<u>(110,126)</u>	<u>(124,490)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Other	<u>18,379</u>	<u>15,123</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Change in debt service fund	(259)	52,610
Change in certificates of deposit	(5,569)	123,538
Change in short-term investments	64,719	(294,281)
Interest received	<u>26,177</u>	<u>39,527</u>
Net cash used by investing activities	<u>85,068</u>	<u>(78,606)</u>
NET CHANGE IN CASH AND EQUIVALENTS	121,192	(62,471)
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>391,512</u>	<u>453,983</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 512,704</u>	<u>\$ 391,512</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ (6,741)	\$ 27,696
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	114,437	114,321
Changes in:		
Accounts receivable	21,547	(17,781)
Accounts payable	(1,138)	1,311
Accrued liabilities	(234)	(45)
Net cash provided by operating activities	<u>\$ 127,872</u>	<u>\$ 125,502</u>

CONSOLIDATED RURAL WATER DISTRICT NO. 6 JOHNSON COUNTY, KANSAS

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2008 AND 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Organization - The Rural Water District (District) was established as a tax-exempt organization to acquire water and water rights and to build and acquire pipelines for the purpose of furnishing water to owners and occupants of land located within the district. The benefit units at December 31, 2008 and 2007 were 638 and 634, respectively.
- b. GASB Statement No. 34 – In June 1999, GASB issued Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. This statement, known as the "Reporting Model" statement, affects the way the District prepares and presents financial information.

GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments, including special purpose governments. The statement was developed to make annual reports easier to understand and more useful to the people who use governmental financial information to make decisions and includes:

Management's Discussion and Analysis – GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the District's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to analysis the private sector provides in their annual reports.

Statement of Net Assets or Balance Sheet – This statement is designated to display the financial position of the District. Districts report all capital assets, including infrastructure. The net assets of the District will be broken down into three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation – The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

- c. Basis of Accounting – In the Statement of Net Assets, and the Statement of Revenues and Expenses and Change in Net Assets, activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.
- d. Cash Equivalents - For purposes of the statement of cash flows the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

- e. Accounts Receivable – The District reads meters on the 20th of each month and bills are mailed on approximately the 25th day of the month. Payments for water service are due the 16th day of the following month or will be subject to a late charge of 15%.

The District's rate schedule is as follows:

Minimum monthly charge \$15.50

Each 1,000 gallons \$5.20 per thousand gallons up to 125% of the average winter water consumption, which is computed from October to March.

Each 1,000 gallons above 125% of the average water consumption is \$7.20

The above rates were effective beginning in 2007.

- f. Property and Equipment - Property and equipment, which consist of water lines and meters, are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of 40 years. The cost of maintenance and repairs is charged to income as incurred; significant renewals and improvements are capitalized.
- g. Loan Costs – Loan costs are the costs in connection with obtaining a loan from the Kansas Public Water Supply Loan Fund. These costs include loan origination fee and the financial integrity assurance contract fee. The costs will be amortized over the life of the loan using a straight-line method when the District begins paying principal and interest payments.
- h. Income Taxes - The District is a quasi-governmental unit, not subject to federal or state income taxes.
- i. Benefit Units - Benefit units are rights that entitle the holder to water service. Benefit units were sold for \$5,700 in 2008 and 2007 and are included in the statement of activities. In addition to the benefit unit fee members are required to pay a capital improvement fee of \$3,700 in 2008 and 2007, which is also included in the statement of activities.
- j. Aid in Construction – Aid in construction represents contributions from the members or other government agencies for line extensions and improvements to the water system and are included in the statement of activities.
- k. Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

2. CASH AND DEPOSITS

As of December 31, 2008 and 2007, the District's deposits were covered by federal depository insurance or by collateral held by the District's agent in the District's name. The following represents the cash and certificates of deposit at December 31, 2008 and 2007:

			2008	2007
Cash and cash equivalents:				
1st National Bank - Operating Account			4,935	3,866
1st Kansas Bank - Money Market Account			229,544	100,716
1st National Bank- Money Market			173,087	205,096
Municipal Investment Pool - Overnight Pool			<u>105,138</u>	<u>81,834</u>
			<u>\$ 512,704</u>	<u>\$ 391,512</u>
Certificates of deposit:				
	Maturity Date	Interest Rate		
1st National Bank	3/29/2009	3.11%	\$ 71,043	\$ 68,258
1st National Bank	3/29/2009	3.11%	<u>71,043</u>	<u>68,258</u>
			<u>\$ 142,086</u>	<u>\$ 136,516</u>
Short term investments				
Municipal Investment Pool			<u>\$ 229,562</u>	<u>\$ 294,281</u>
			<u>\$ 229,562</u>	<u>\$ 294,281</u>

Cost approximate market value and the cash and investments are considered low risk.

3. OTHER RECEIVABLES

	2008	2007
Interest receivable	\$ <u>3,496</u>	\$ <u>3,985</u>
	<u>\$ 3,496</u>	<u>\$ 3,985</u>

4. DEBT SERVICE FUND

The District's board of directors has established and funded a "Debt Service Fund" for the purpose of having amounts available to pay the principal and interest on the note payable to General Motors Acceptance Corporation (GMAC).

As part of the Kansas Public Water Supply Loan Fund (KPWSLF), the District is required to maintain a loan reserve amount equal to 10% of the original principal amount. The District is funding the reserve fund with proceeds from the (KPWSLF). The loan reserve fund is being held by Kansas Development Finance Authority (KDFA) and earning an interest rate of 5.3%.

The balance in the Debt Service Fund consists of the following:

The GMAC debt service amount is being maintained in an escrow account at Commerce Bank.

	2008	2007
GMAC	\$ 18,030	\$ 17,771
KPWSLF	<u>123,944</u>	<u>123,944</u>
	<u>\$ 141,974</u>	<u>\$ 141,715</u>

5. PROPERTY AND EQUIPMENT

	2008	2007
Water lines and improvements	\$ <u>4,029,154</u>	\$ <u>3,988,442</u>
	4,029,154	3,988,442
Accumulated depreciation	<u>(1,289,501)</u>	<u>(1,175,838)</u>
	<u>\$ 2,739,653</u>	<u>\$ 2,812,604</u>

Roll forward of property and equipment:

Property, Plant and Equipment Rollforward 2008

	Beginning Balance	Additions	Transfers	Ending Balance
Water lines and improvements	\$ 3,988,442	\$	\$ 17,183	\$ 4,005,625
Construction in progress		40,712	(17,183)	23,529
Accumulated Depreciation	<u>(1,175,838)</u>	<u>(113,663)</u>		<u>(1,289,501)</u>
Book Value	<u>\$ 2,812,604</u>	<u>\$ (72,951)</u>	<u>\$</u>	<u>\$ 2,739,653</u>

Property, Plant and Equipment Rollforward 2007

	Beginning Balance	Additions	Transfers	Ending Balance
Water lines and improvements	\$ 3,627,438	\$ 151,252	\$ 209,751	\$ 3,988,442
Construction in progress	249,244		(209,751)	
Accumulated Depreciation	<u>(1,062,292)</u>	<u>(113,546)</u>		<u>(1,175,838)</u>
Book Value	<u>\$ 2,814,390</u>	<u>\$ 37,706</u>	<u>\$</u>	<u>\$ 2,812,604</u>

The District is in the process of making various line improvements to the water system at various locations throughout the system.

Capitalization policies, depreciation methods, and estimated useful lives of capital assets are as follows:

	<u>Capitalization Policy</u>	<u>Depreciation Method</u>	<u>Estimated Useful Life</u>
Water line and improvements	5.000	Straight Line	3 - 40 years

The District, at their discretion, can capitalize items below \$5,000.

6. LONG-TERM DEBT

In February of 1981, the District issued a note to the Farmers Home Administration in the amount of \$164,500 (\$8,990 and \$8,990 outstanding at December 31, 2008 and 2007, respectively). In 1987 the note was purchased by General Electric Capital Corporation. The note bears interest at 5.0% with principal and interest due annually through March 20, 2011. In November 1997, GMAC Commercial Mortgage Corporation purchased the note from General Electric Capital Corporation. Revenues produced from the District's system and the water system are pledged as collateral against the note.

In 1998, the District received a loan from the Kansas Public Water Supply Loan Fund (KPWSLF) up to \$1,239,437 (\$783,620 and \$839,039 outstanding at December 31, 2008 and 2007, respectively) bearing interest at 4.09%. The District will make monthly principal and interest payments over 20 years. Revenues of the District have been pledged as security.

As part of the loan, the District will be required to maintain a debt service coverage ratio of 1.25 and establish a loan reserve account in the amount of 10% of the unpaid principal. (See Note 3).

	<u>Beginning Balance</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
GMAC	\$ 17,771	\$ 8,781	\$ 8,990	\$ 8,990
Loan fund	<u>892,259</u>	<u>53,220</u>	<u>839,039</u>	<u>55,419</u>
	<u>\$ 910,030</u>	<u>\$ 62,001</u>	<u>\$ 848,029</u>	<u>\$ 64,409</u>

Rollforward of long-term debt 2008:

	<u>Beginning Balance</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Current Portion</u>
GMAC	\$ 8,990	\$	\$ 8,990	\$ 8,990
Loan fund	<u>839,039</u>	<u>55,419</u>	<u>783,620</u>	<u>57,709</u>
	<u>\$ 848,029</u>	<u>\$ 55,419</u>	<u>\$ 792,610</u>	<u>\$ 66,699</u>

Maturities of long-term debt for years subsequent to December 31, 2008 are as follows:

	Principal	Interest	Total
2009	\$ 66,699	\$ 22,476	\$ 89,175
2010	60,093	29,082	89,175
2011	62,576	26,599	89,175
2012	65,161	24,014	89,175
2013	67,854	21,321	89,175
2014	70,657	18,518	89,175
2015	73,577	15,598	89,175
2016	76,617	12,558	89,175
2017	79,783	9,392	89,175
2018	83,079	6,096	89,175
2019	<u>86,514</u>	<u>2,661</u>	<u>89,175</u>
	\$ <u><u>792,610</u></u>	\$ <u><u>188,315</u></u>	\$ <u><u>980,925</u></u>

	2008	2007
Calculation of Debt Service Coverage Ratio:		
Net income (loss) before capital contributions	\$ (6,741)	\$ 27,695
Adjustments:		
Depreciation and amortization	114,437	114,321
Interest expense	<u>35,976</u>	<u>34,610</u>
Available for debt service	\$ 143,672	\$ 176,626
Debt service payments	\$ <u>89,175</u>	\$ <u>98,841</u>
Debt service coverage ratio	<u><u>1.61</u></u>	<u><u>1.79</u></u>

Calculation of Debt Service Coverage Ratio (excluding GMAC payments held in escrow):	2008	2007
Net income (loss) before capital contributions	\$ 11,289	\$ 42,797
Adjustments:		
Depreciation and amortization	114,437	114,321
Interest expense	<u>35,976</u>	<u>34,610</u>
Available for debt service	\$ 161,702	\$ 191,728
Debt service payments	<u>\$ 89,175</u>	<u>\$ 98,841</u>
Debt service coverage ratio	<u>1.81</u>	<u>1.94</u>

The above calculations do not include benefit units.

7. CONCENTRATION OF CREDIT RISK

The District is engaged in the sale of water to customers located in Johnson County, Kansas. The District grants credit to those customers and requires no collateral, except for the notes receivable for which the District has a second mortgage on the property.

The District purchases water from the City of De Soto, Kansas, the City of Olathe, Kansas and Rural Water District 7 of Johnson County, Kansas. In 2008 and 2007 the city purchased 10,500 and 110,000 gallons and 91,610,413 and 106,738,900 gallons, and 1,976,000 and 3,416,000 gallons from these sources, respectively.

In 2008 and 2007 the District sold approximately 36,676,000 and 35,418,900 or 40% and 40% of the total gallons sold, to Rural Water District No. 4 of Douglas County, Kansas.

8. COMPLIANCE WITH KANSAS STATUTES

References made herein to the statutes are not intended as interpretations of law, but are offered for consideration of the Director of Accounts and Reports and interpretation by the County Attorney and legal representatives of the water district. There were no apparent statutory violations during the year ended December 31, 2008 and 2007.

9. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, and injuries to employees. The District manages these various risks of loss through insurance policies through Employers Mutual Casualty Company. See supplemental schedule for details of the various insurance policies.

10. COMPENSATED ABSENCES

The District has no employees; as a result, there is no accrual for vacation and sick pay.

11. RELATED PARTIES

The District contracts with a company to perform monthly accounting. A board member is affiliated with that company.

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CONSOLIDATED RURAL WATER DISTRICT NO. 6
JOHNSON COUNTY, KANSAS

INSURANCE IN FORCE
YEAR ENDED DECEMBER 31, 2008

Policy Type	Expiration Date	Company	Annual Premium	Amount of Coverage	Description
Liability	2/1/2009	Employers Mutual Casualty Company (EMC)	\$680	2,000.000	Aggregate limit
				2,000.000	Products completed aggregate limit
				1,000.000	Employee benefit injury limit
				1,000.000	Advertising injury limit
				300.000	Damage to premises rented to you
				5.000	Medical payments for each person
				1,000.000	Directory and Officers
					Aggregate Liability
Property	2/1/2009	EMC	369	29.870	Water Tank
				10.300	Sign
Inland Marine	2/1/2009	EMC	54	25.000	Valuable papers and records
Linebacker	2/1/2009	EMC	1.509	1,000.000	Each loss
				1,000,000	aggregate for each policy term

CONSOLIDATED RURAL WATER DISTRICT NO. 6
JOHNSON COUNTY, KANSAS

SCHEDULE OF STATISTICAL INFORMATION
YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008	2007
Gallons sold	81,919,210	89,204,850
Gallons purchased	93,596,913	100,264,968
Water loss percentage	12.48%	11.03%
Number of benefit units	638	634
Water sales per benefit unit per month	\$ 64.44	\$ 70.04
Costs and expenses per benefit unit per month	\$ 65.32	\$ 66.40
Cost of water per 1,000 gallons	\$ 2.41	\$ 2.47
Debt per benefit unit	\$ 1.242	\$ 1.338